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Developing an Investment Policy Statement

As a member of your organization's Retirement Plan Investment Committee, your job is to make sure the assets of your retirement plan participants are invested wisely. But how do you go about this important task? One key step is to create an Investment Policy Statement, or IPS.

An IPS is a formal document that explains the guidelines and procedures for how to manage an organization's investment portfolio. Typically, an IPS will define the organization's investment goals, Risk tolerance, asset allocation, and other investment related policies. It gives clear directions to finance staff and committee members.

Having a written IPS provides several benefits. One of the biggest benefits is that it helps ensure consistency and accountability in the process. And how the portfolio is managed over time, regardless of who is managing it. An IPS may also promote better long-term investment performance by establishing a disciplined process up front.

It can help prevent emotion based or reactionary investment decisions that might undermine the portfolio success. The policies contained in an IPS. Help the organization stay on track, even when markets are volatile. So, what exactly goes into an IPS? First, you'll want to outline the organization's investment objectives.

Is the overall goal to preserve capital, generate income, or grow the portfolio's value over time? What are the long term and short-term goals you want to achieve? Next, make sure to specify your time horizon and risk tolerance. Then give details about asset allocation. What percentage of the portfolio should be invested in stocks?

bonds, alternative investments, and other asset classes. Your IPS should also include policies regarding diversification, liquidity needs, rebalancing, and selecting and monitoring investment managers. It's a good idea to document any investment restrictions, including companies or sectors of the economy, that are off limits from an investment point of view, or that conflict with the mission or values of the organization.

Lastly, be sure to explain the investment decision making process. reporting requirements, and oversight procedures. Some organizations also choose to include their conflict-of-interest policy in their IPS. Keep in mind that creating an IPS is not something to be done hastily. It's a thoughtful and sometimes lengthy exercise that should involve lots of key stakeholders, including investment committee members, Senior leadership and staff, plus your professional advisors.

Once you have created a draft of your IPS, it will need to be approved by your board of directors or other governing body. It should then be reviewed and updated on a regular basis, typically once a year. By documenting investment objectives, policies, and procedures, an IPS promotes continuity, accountability, and better investment outcome.

That's why it's a crucial part of effective long term portfolio management. For help developing an IPS for your organization, call CAPTRUST. We can help.